

# Building a Competitive Jerusalem

Professor Michael E. Porter  
Harvard Business School

*Jerusalem Competitiveness Initiative – Growth Agenda Launch Event  
Jerusalem, Israel  
May 10, 2015*

---

This presentation draws on ideas from Professor Porter's articles and books, in particular, [The Competitive Advantage of Nations](#) (The Free Press, 1990), "Building the Microeconomic Foundations of Competitiveness," in [The Global Competitiveness Report](#) (World Economic Forum), "Clusters and the New Competitive Agenda for Companies and Governments" in [On Competition](#) (Harvard Business School Press, 2008), "[Clusters and the Great Recession](#)" (Delgado-Porter-Stern, Working Paper 2014), "[Defining Clusters of Related Industries](#)" (Delgado-Porter-Stern, NBER 2014), "[Clusters, Convergence, and Economic Performance](#)" (Delgado-Porter-Stern, NBER 2012), "[Cluster and Entrepreneurship](#)" (Delgado-Porter-Stern, CES 2010), "[The Economic Performance of Regions](#)" (Regional Studies 2003), and ongoing related research. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means - electronic, mechanical, photocopying, recording, or otherwise - without the permission of Michael E. Porter. For further materials, see the website of the Institute for Strategy and Competitiveness ([www.isc.hbs.edu](http://www.isc.hbs.edu)).

---

# Jerusalem

**History**

**Religion**

**Culture**

**Politics**

**Economy?**

# Jerusalem's Economy in 2015

- A City with prosperity levels **significantly below** the national average, but with large differences in prosperity across the City's main groups:
  - Orthodox Jews and Arabs in East Jerusalem have significantly lower labor mobilization and productivity, while the rest of the community outperforms national averages
- An economic trajectory that until recently has been **eroding**

**BUT**

- Positive **momentum**, driven by progress in areas like tourism and knowledge-driven industries
- Business environment conditions viewed as **generally solid**. Major efforts in **infrastructure** and **education** are under way
- The business community has a broadly positive view of the city as a **partner for economic development**



- Jerusalem has **economic opportunities**. It needs a clear **strategy** to leverage them

# Jerusalem is Gaining Momentum

- Major **infrastructure projects** are under way: Fast train from Tel Aviv; road upgrading to and from Jerusalem; 'Entrance to the City'-project, and planned extension of the light train
- Hi-Tech dynamism improving: **100 start-ups** in 2014, compared to 10 in 2012; **\$227m in VC investments** in 2014, up from \$58m in 2012
- Tourism is growing: **27% growth in Israeli tourists** to the city between 2009 and 2014; share of individual visitors growing from 40% to 50% of total
- New **international hotels** are under development: the overall number of available beds in the city will increase by 20% between 2010 and 2016
- Major **events** are attracting visitors to the city: Light festival, Jerusalem Marathon, Formula 1, and many others
- **TV and film production** is growing: Jerusalem's share of national productions has grown from 5% in 2008 to 25% in 2013
- Rising student **enrollment in public school system**, reversing a downward trend in previous years due to outmigration from the city

# What is Competitiveness?

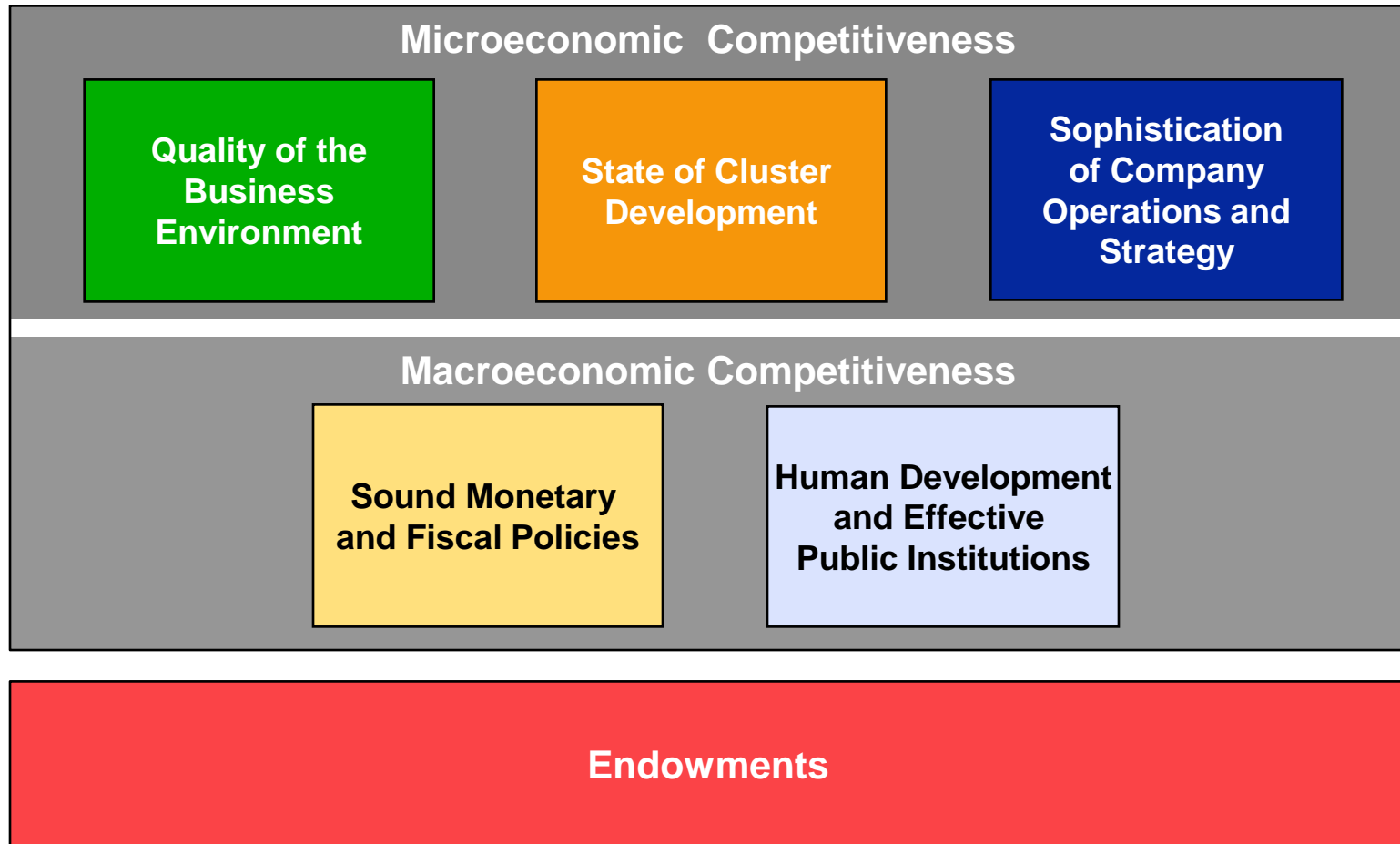
A nation or region is competitive to the extent that firms operating there are able to **compete successfully** in the national and global economy while maintaining or improving **wages and living standards** for the average citizen

- Competitiveness depends on the **long-run productivity** of a location as a place to do business
  - The productivity of **existing** firms and workers
  - The ability to achieve **high participation** of citizens in the workforce
- Competitiveness is **not**:
  - Low wages
  - Availability of financial incentives
  - Jobs per se



- Successful economic development depends on improving competitiveness

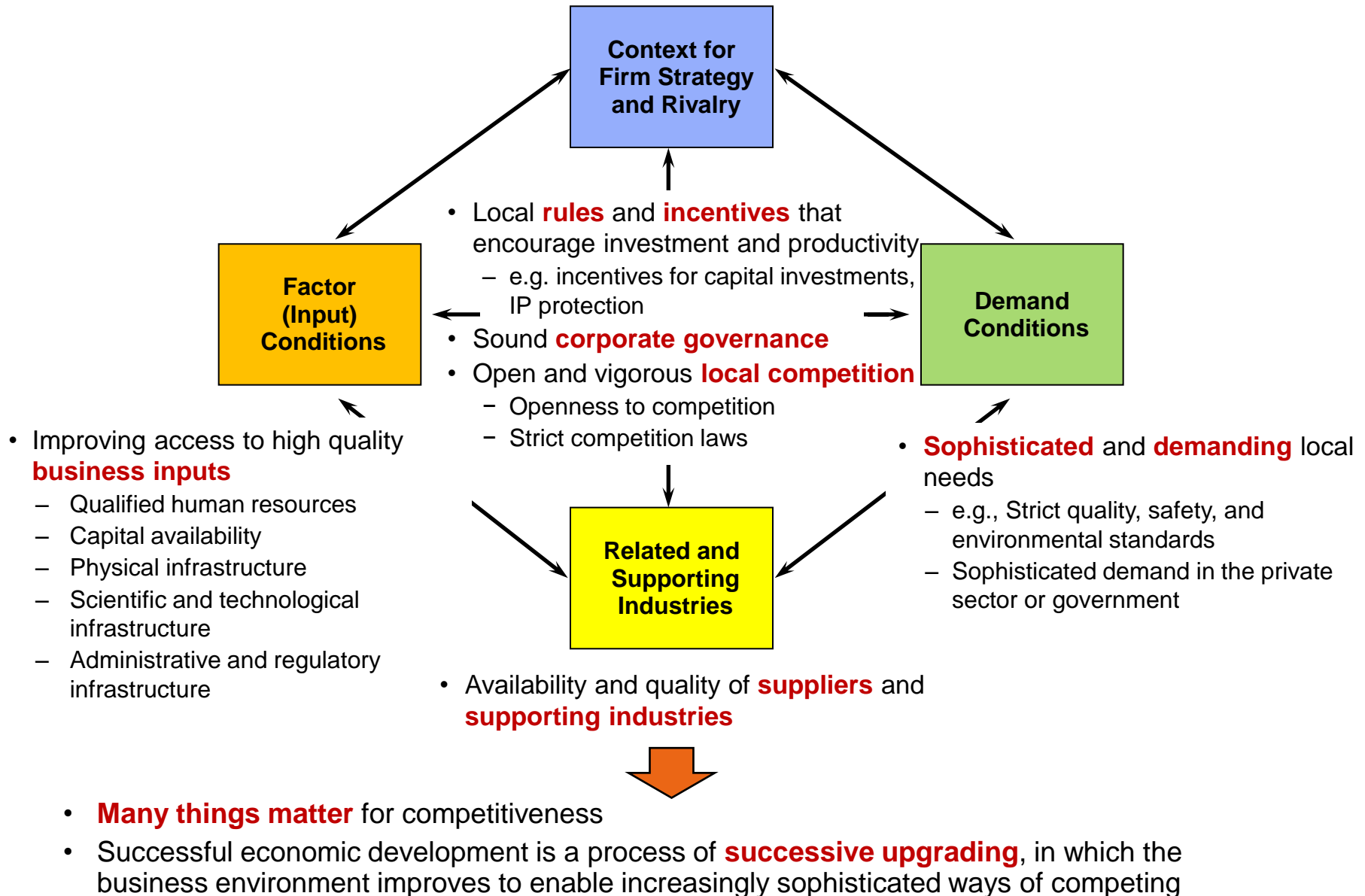
# What Determines Competitiveness?



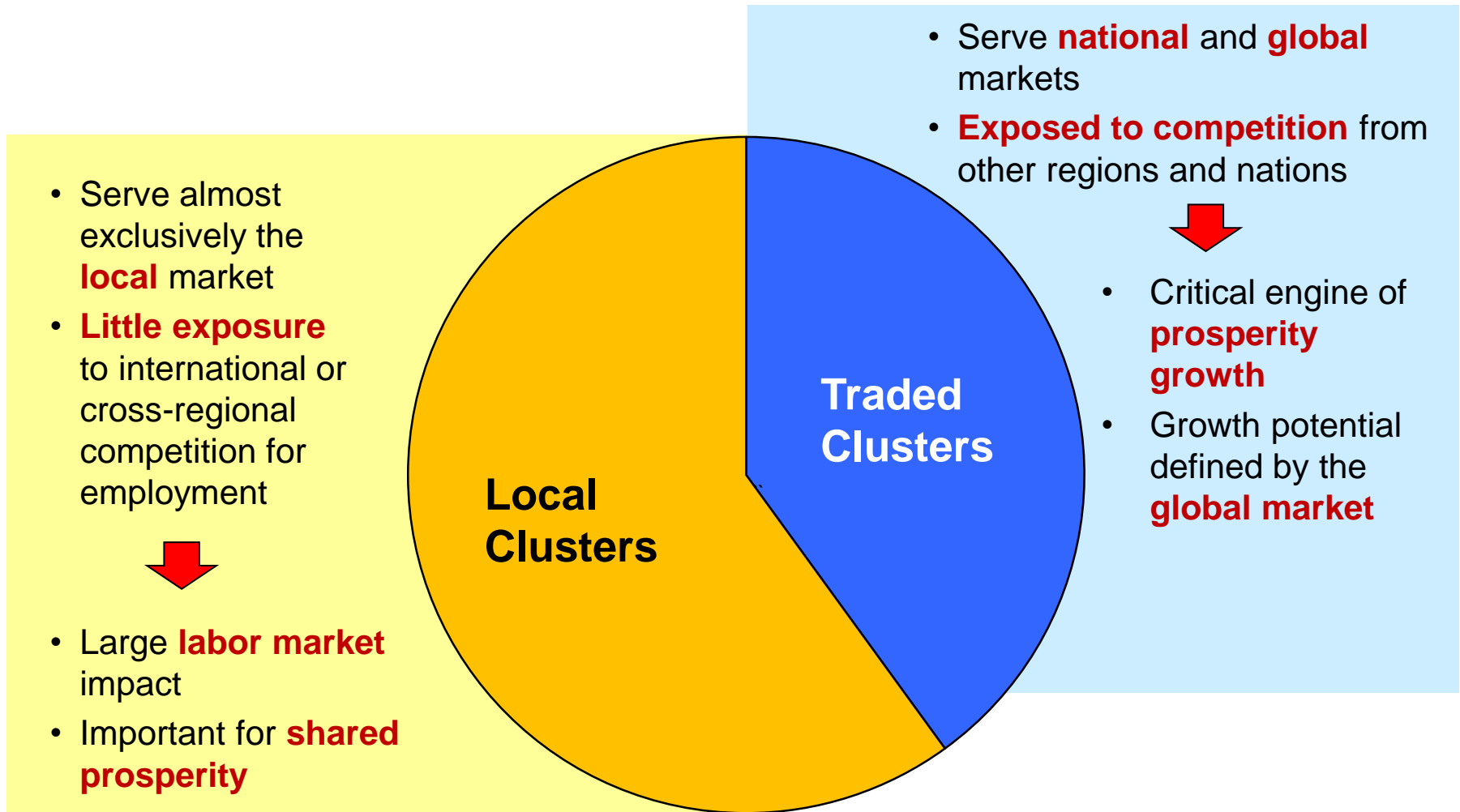
- Productivity ultimately depends on improving the **microeconomic capability** of the economy and the **sophistication of local competition** revealed at the level of firms, clusters, and regions
- Macroeconomic competitiveness sets the **economy-wide** context for productivity to emerge, but is **not sufficient** to ensure productivity
- Endowments, including **natural resources**, **geographical location**, **population**, and **land area**, create a foundation for prosperity, but true prosperity arises from **productivity in the use of endowments**

# Business Environment Quality

## The Diamond Model



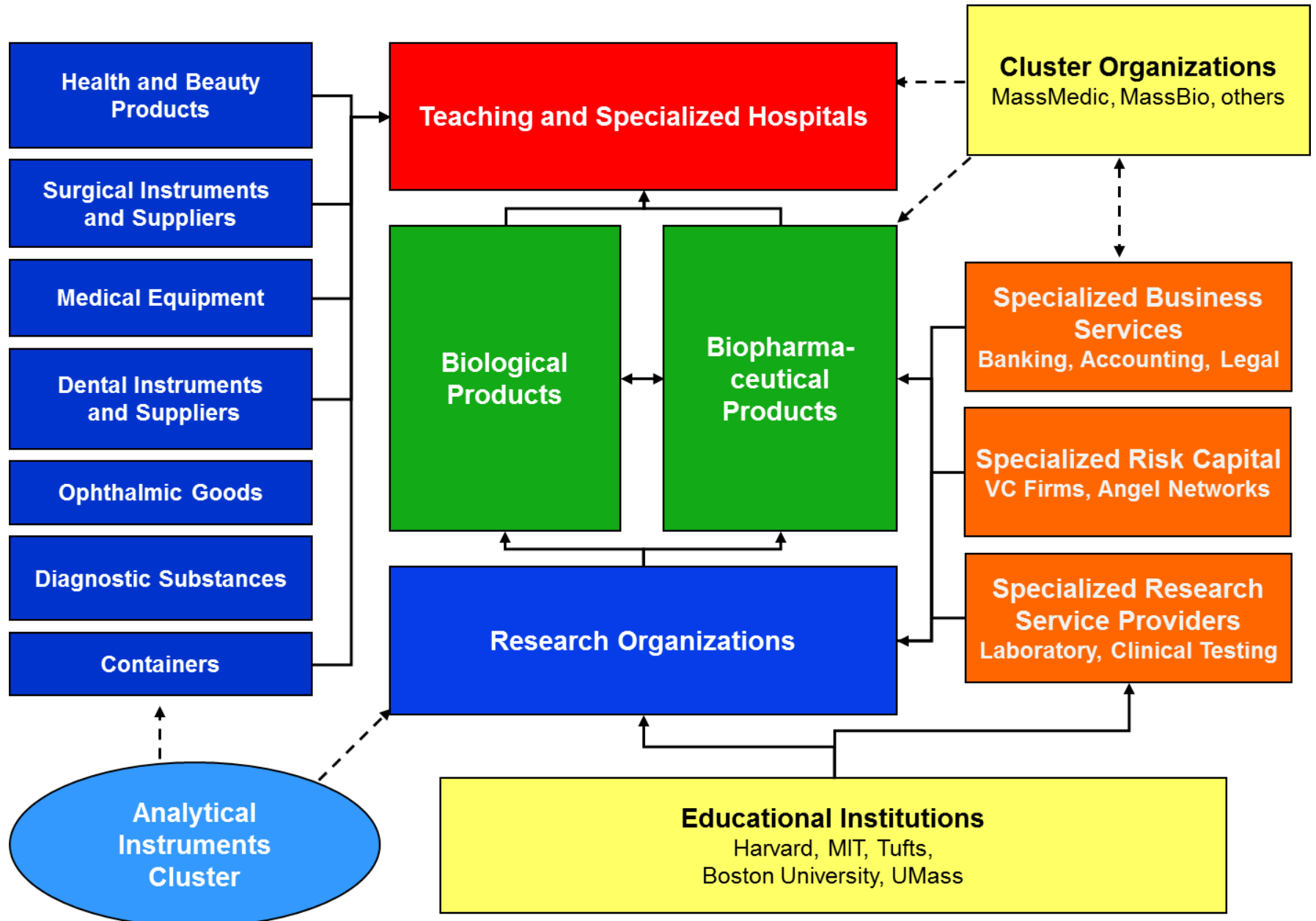
# The Composition of Regional Economies



Source: Michael E. Porter, Economic Performance of Regions, Regional Studies (2003); Updated via Cluster Mapping Project, Institute for Strategy and Competitiveness, Harvard Business School (2015)



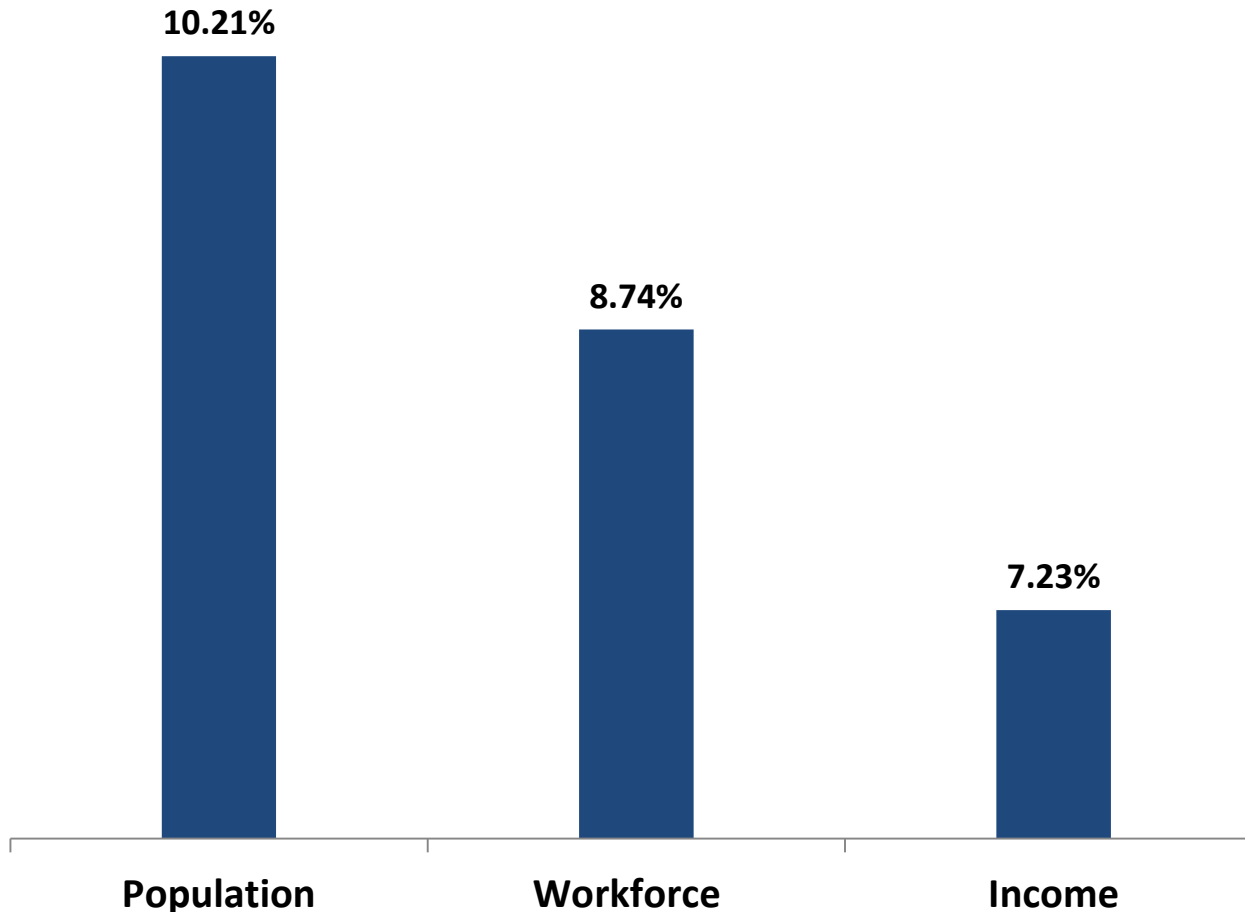
# Massachusetts Life Sciences Cluster



# Jerusalem's Position in the Israeli Economy

## Overall Performance

Jerusalem as % of Israel, 2012

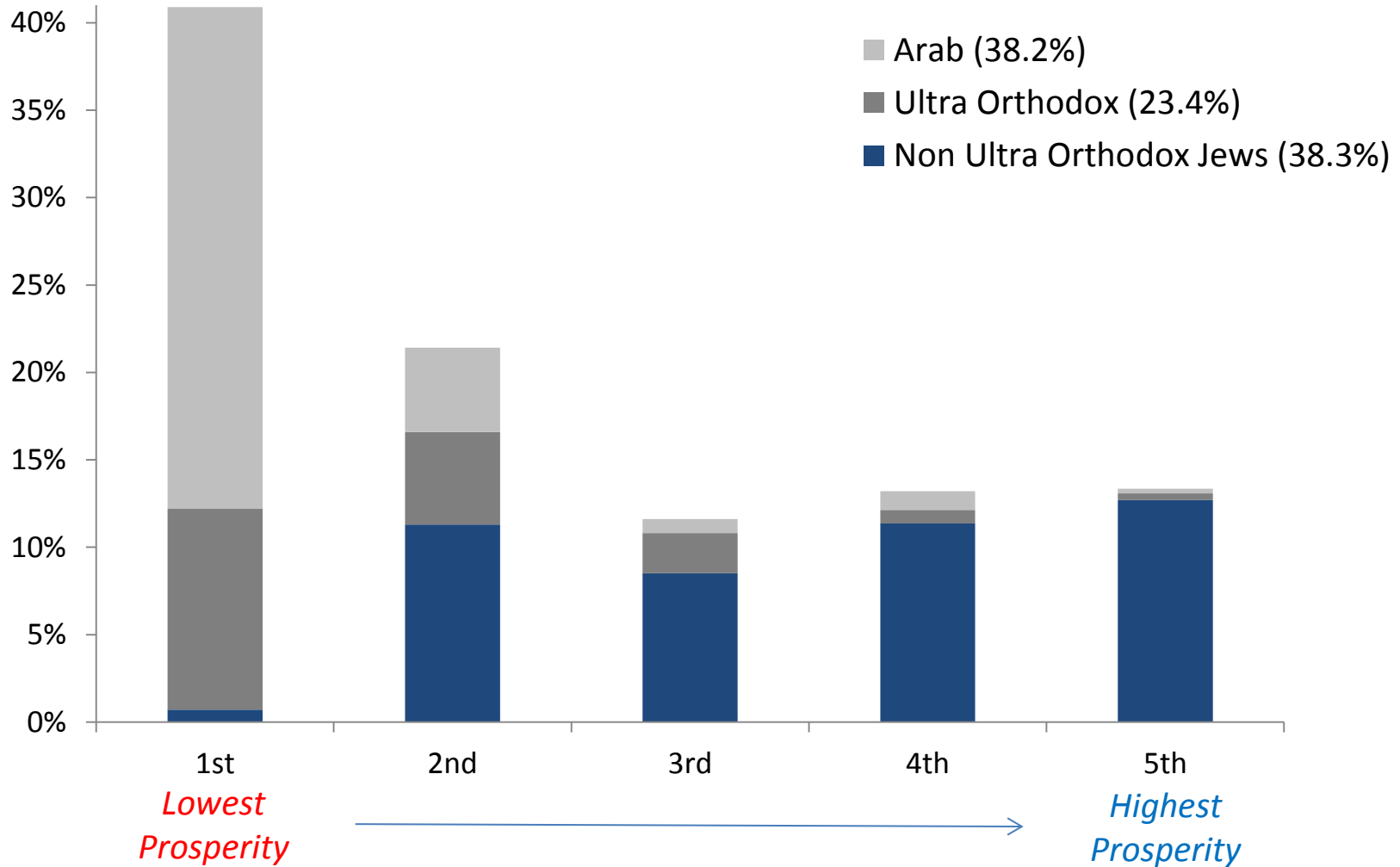


**Average  
per capita  
prosperity level  
in Jerusalem:**

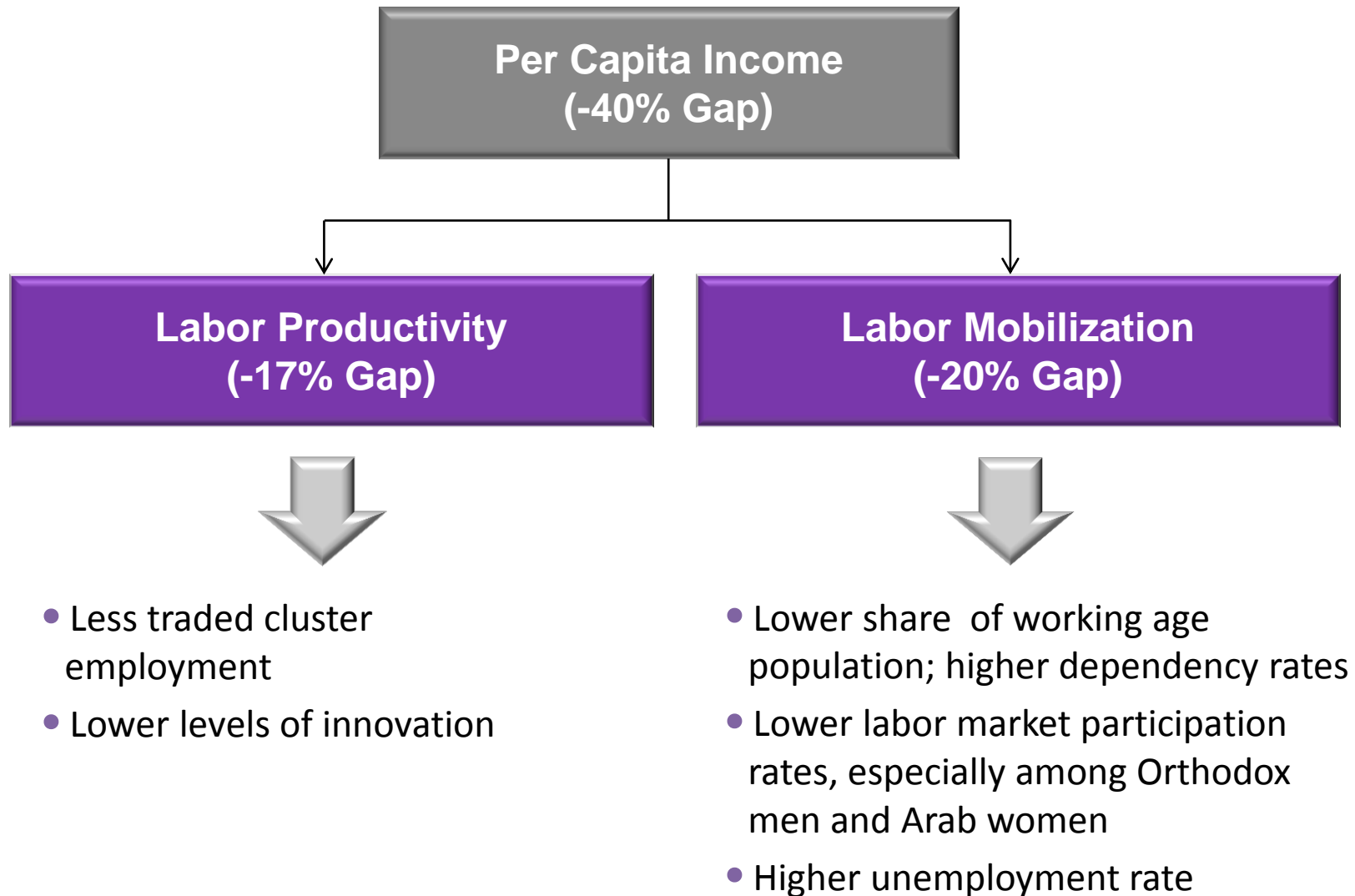
**40% below the  
national level**

# Jerusalem's Prosperity: A Closer Look

Division of Population in Jerusalem by social-economic quintiles, 2012



# Decomposing Jerusalem's Prosperity Performance





# Human Development and Public Institutions

## Jerusalem

### Human Development

- The socio-economic composition of the city creates a **challenging environment** in areas like education, health care, and other public services
- The city has **taken action**, for example with regards to the quality of education, to address these challenges

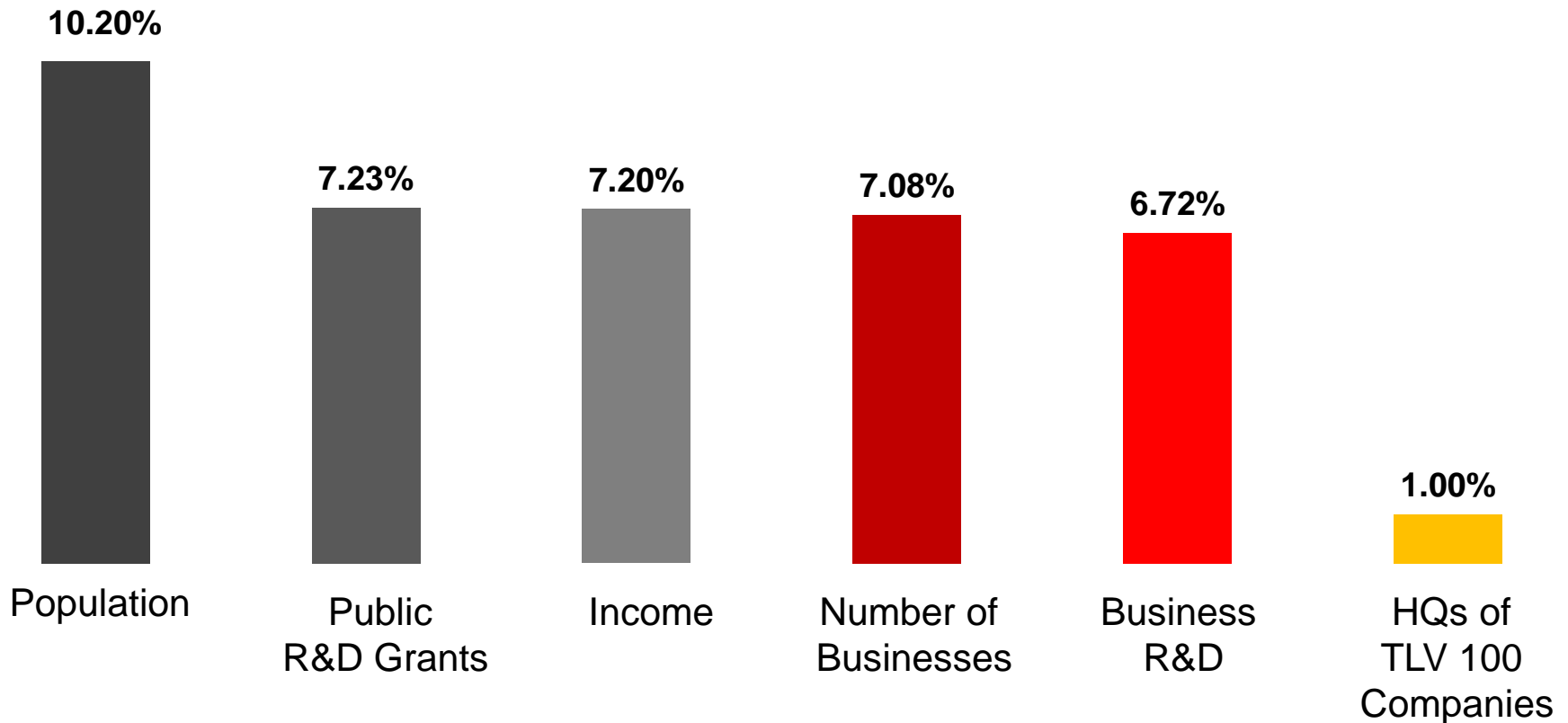
### Public Institutions

- A survey of business leaders has revealed a **modestly positive assessment** of the dialogue with and the responsiveness of the city's agencies

# The Number and Sophistication of Local Companies

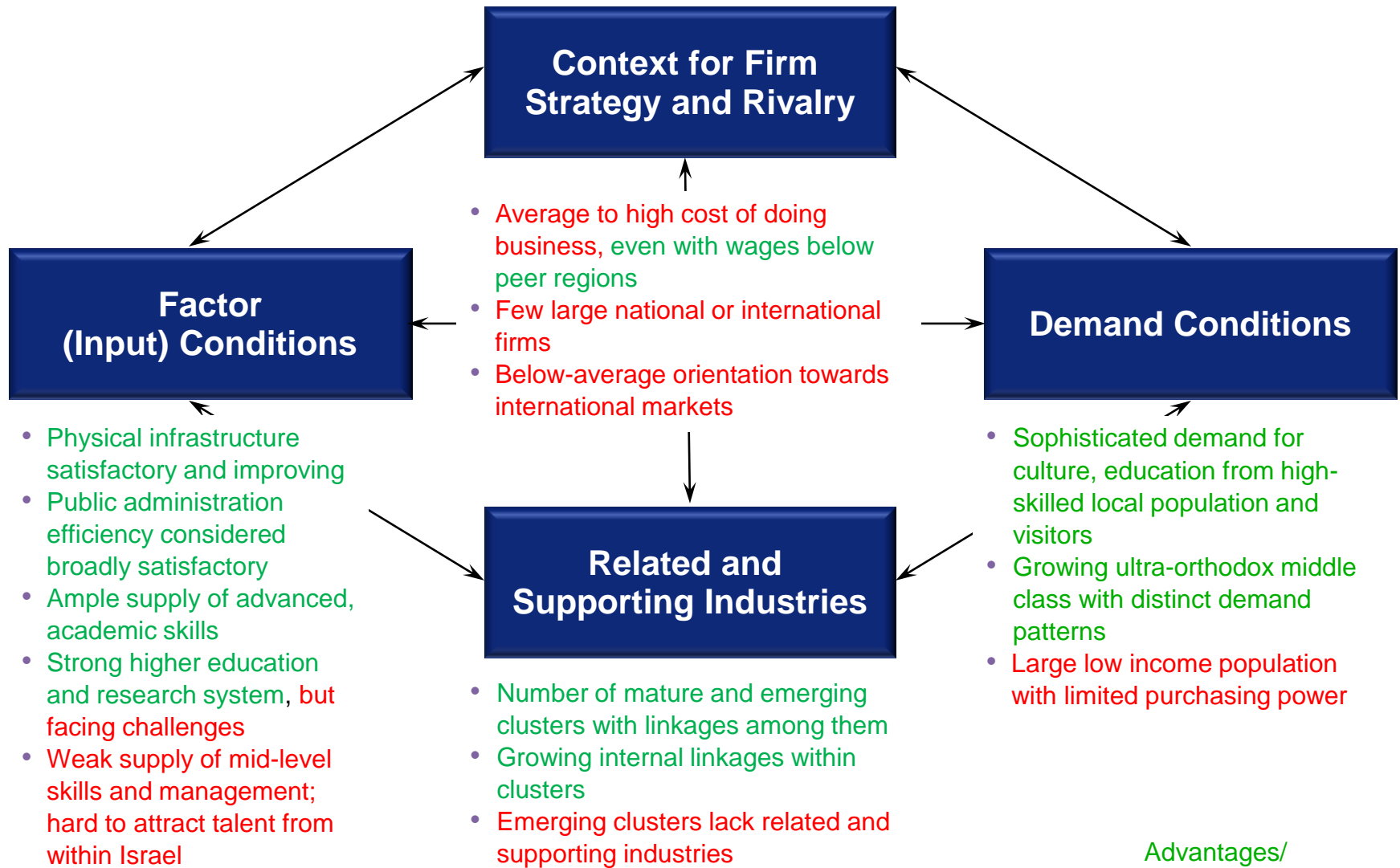
## Vitality of the Business Sector

Jerusalem as % of Israel, 2012



# Business Environment Quality

## Key Observations on Jerusalem



Advantages/  
Disadvantages



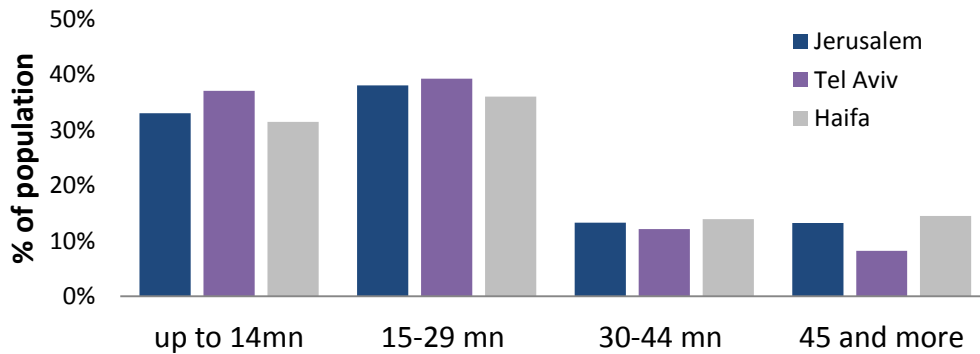
# Business Environment Quality

## Transportation Infrastructure

Jerusalem has the highest rate of public transportation use in Israel with over 250k passengers daily; travel times are comparable to other cities across the country

The proposed transportation plan has significant number of new routes. The plan will be carried out over the next 10 years

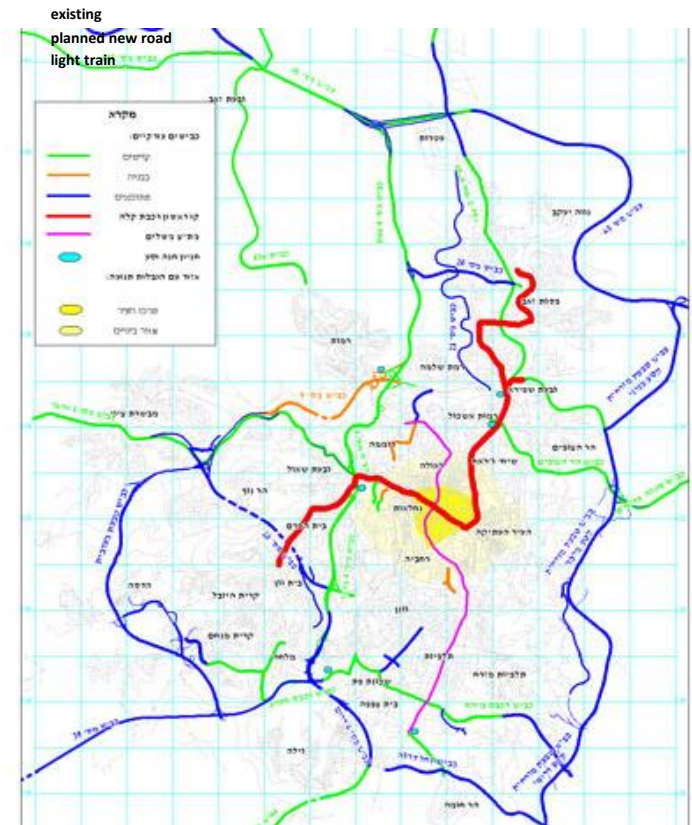
Average Travel Time to Work



August 2011 - the first light rail started operating.



### JERUSALEM TRANSPORTATION PLAN

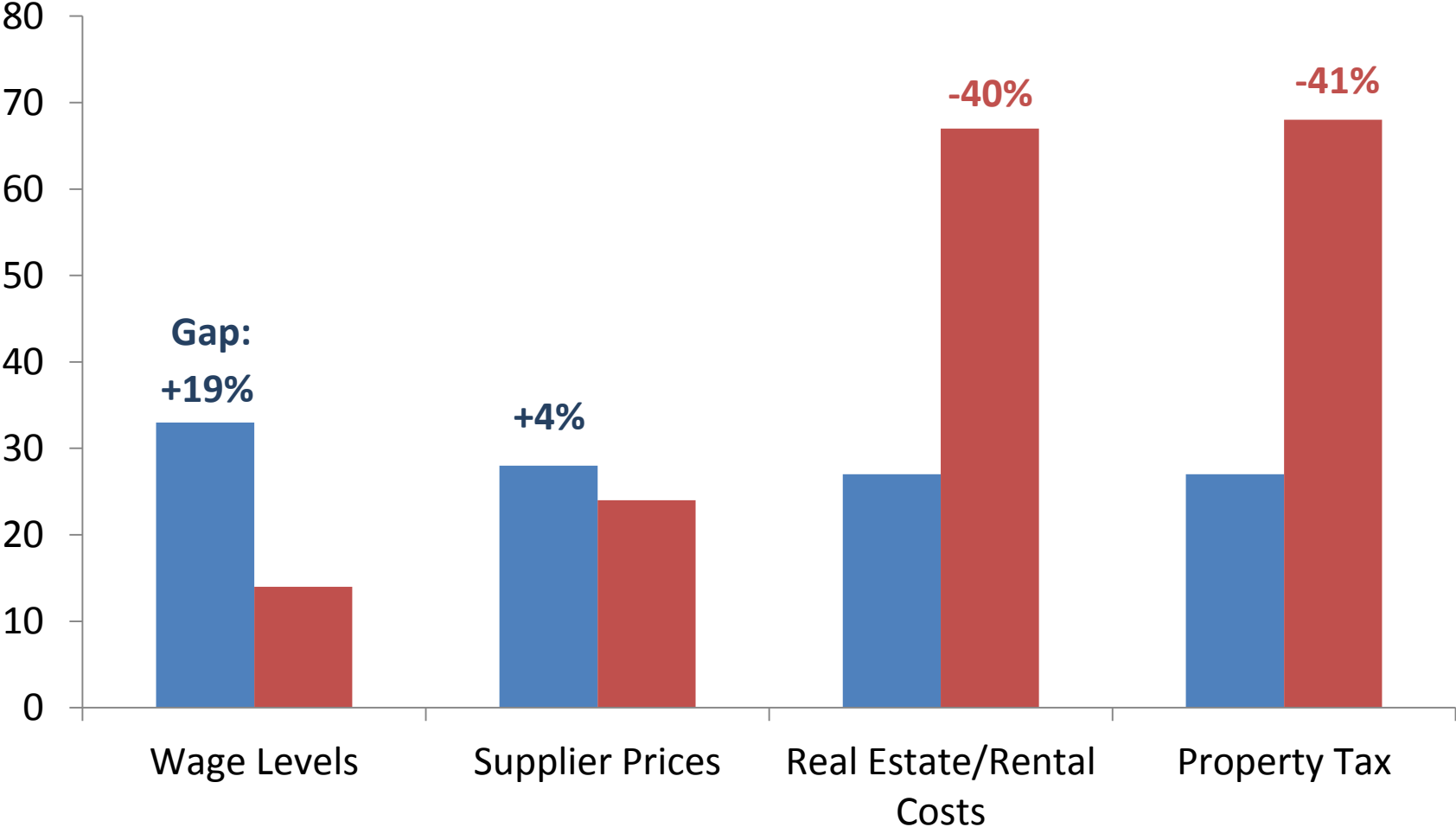


# Business Environment Quality Survey on the Cost of Doing Business

Percentage of Respondents

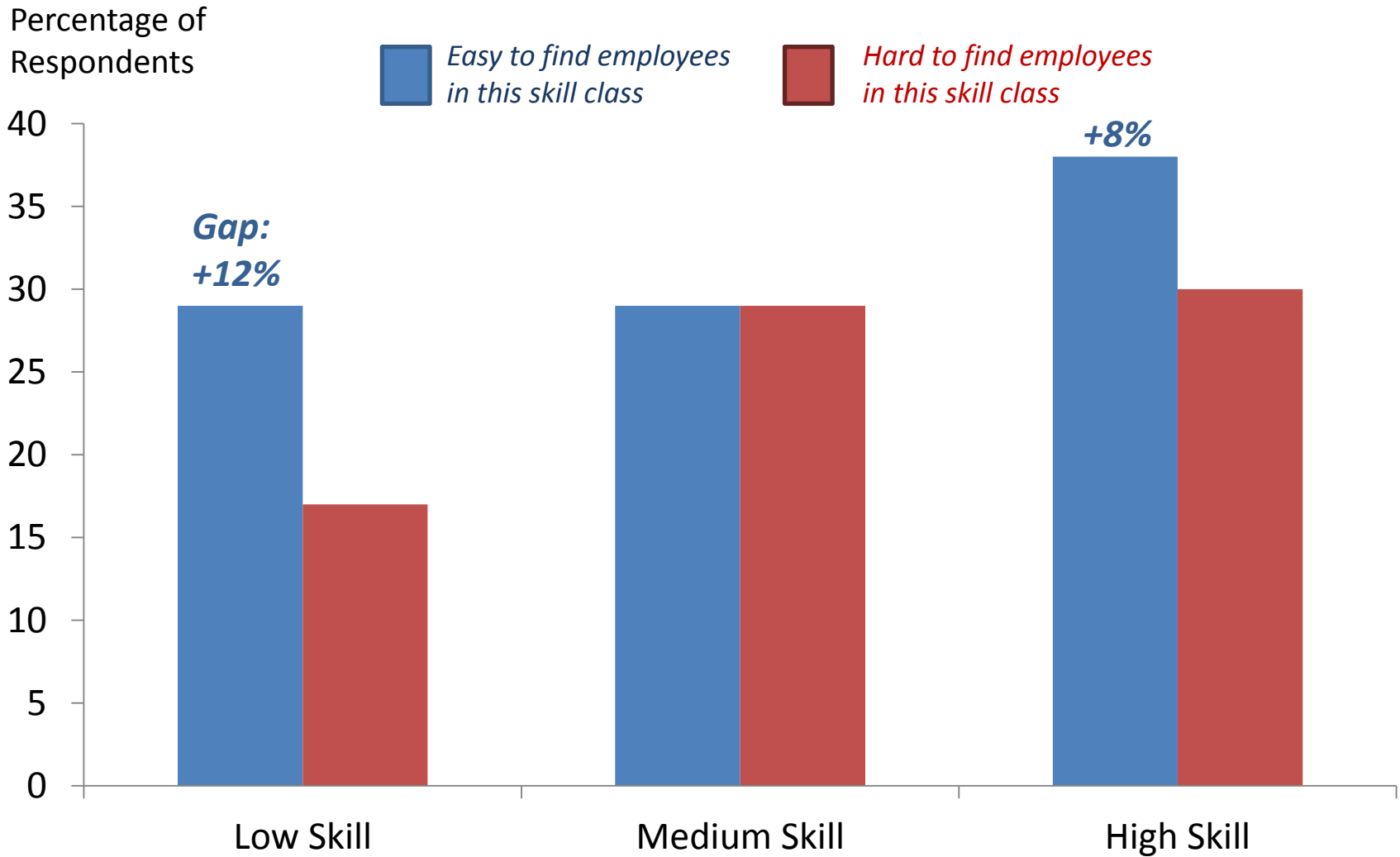
Seen as an Advantage for Jerusalem

Seen as a Disadvantage for Jerusalem



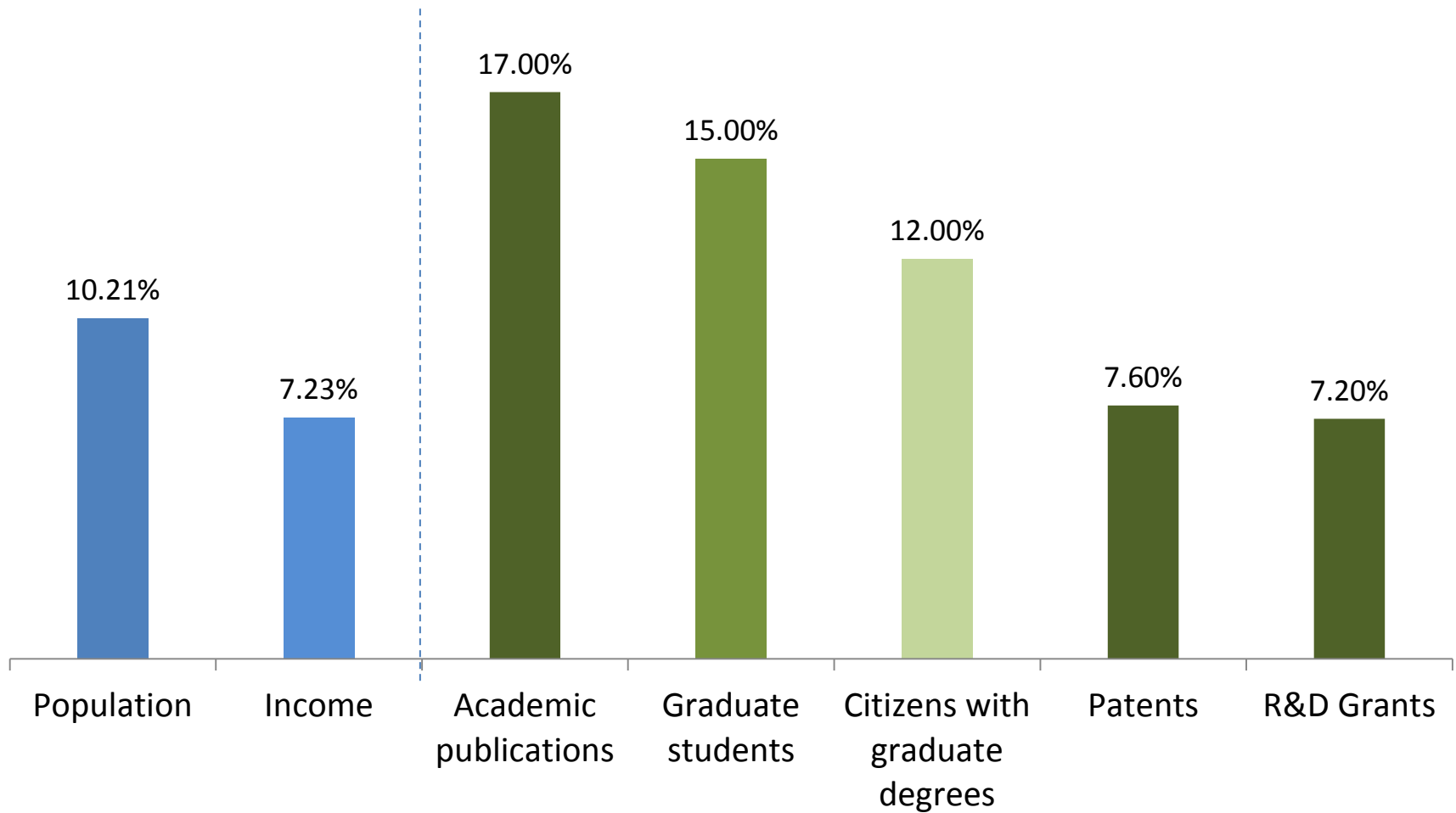
# Business Environment Quality

## Skills



# Jerusalem's Innovative Capacity

Jerusalem as % of Israel, 2012



# Innovative Capacity Core Anchor Institutions

## Hebrew University

- *Founded 1925*
- *27,000 students*
- *Highest ranking academic institution in Israel – #59 in the global Shanghai ranking*



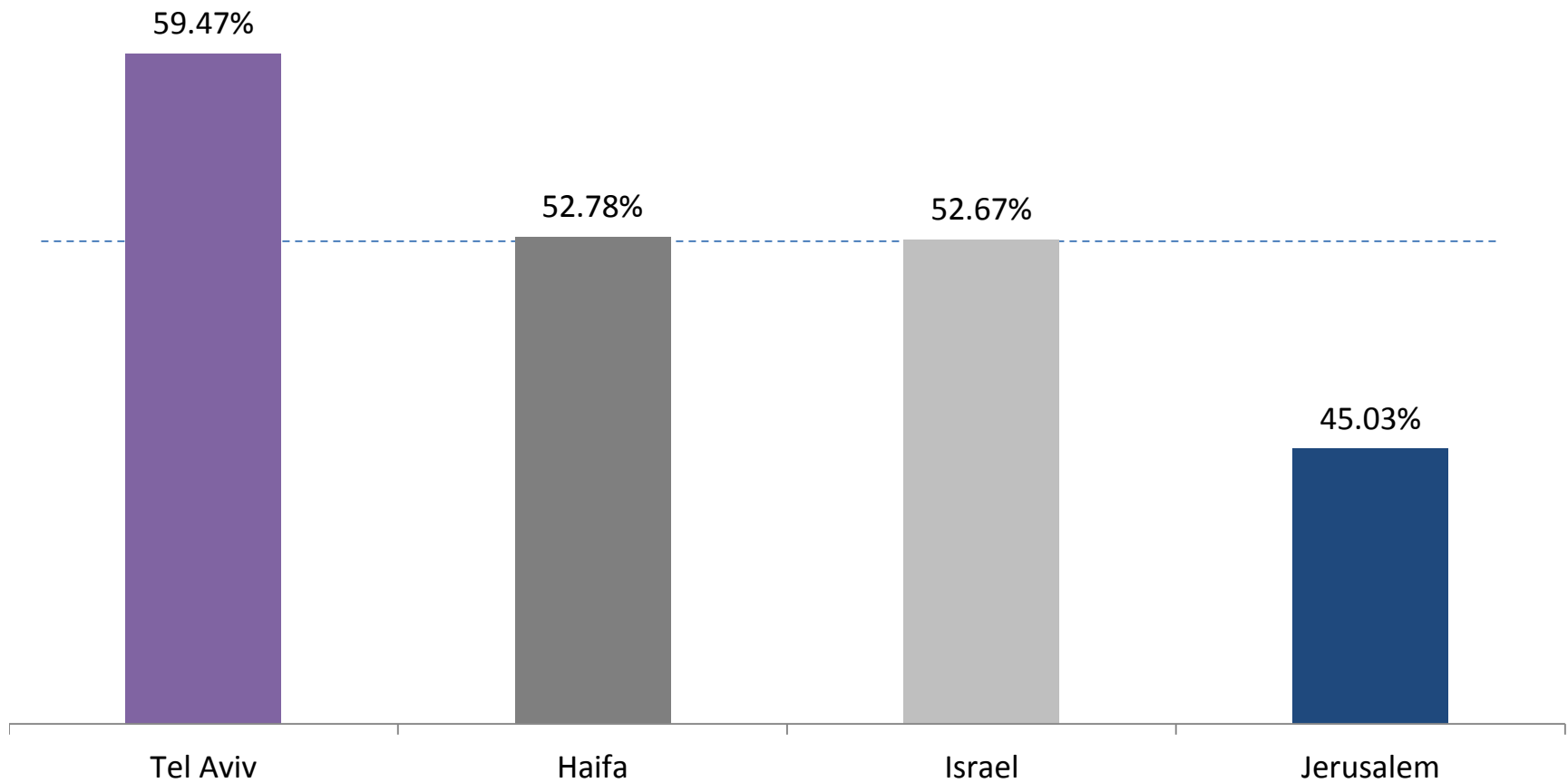
## Hadassah Hospital

- *Founded 1919*
- *1,200 beds*
- *~50% of all hospital-based research, and 31% of all hospital-led patents in Israel*



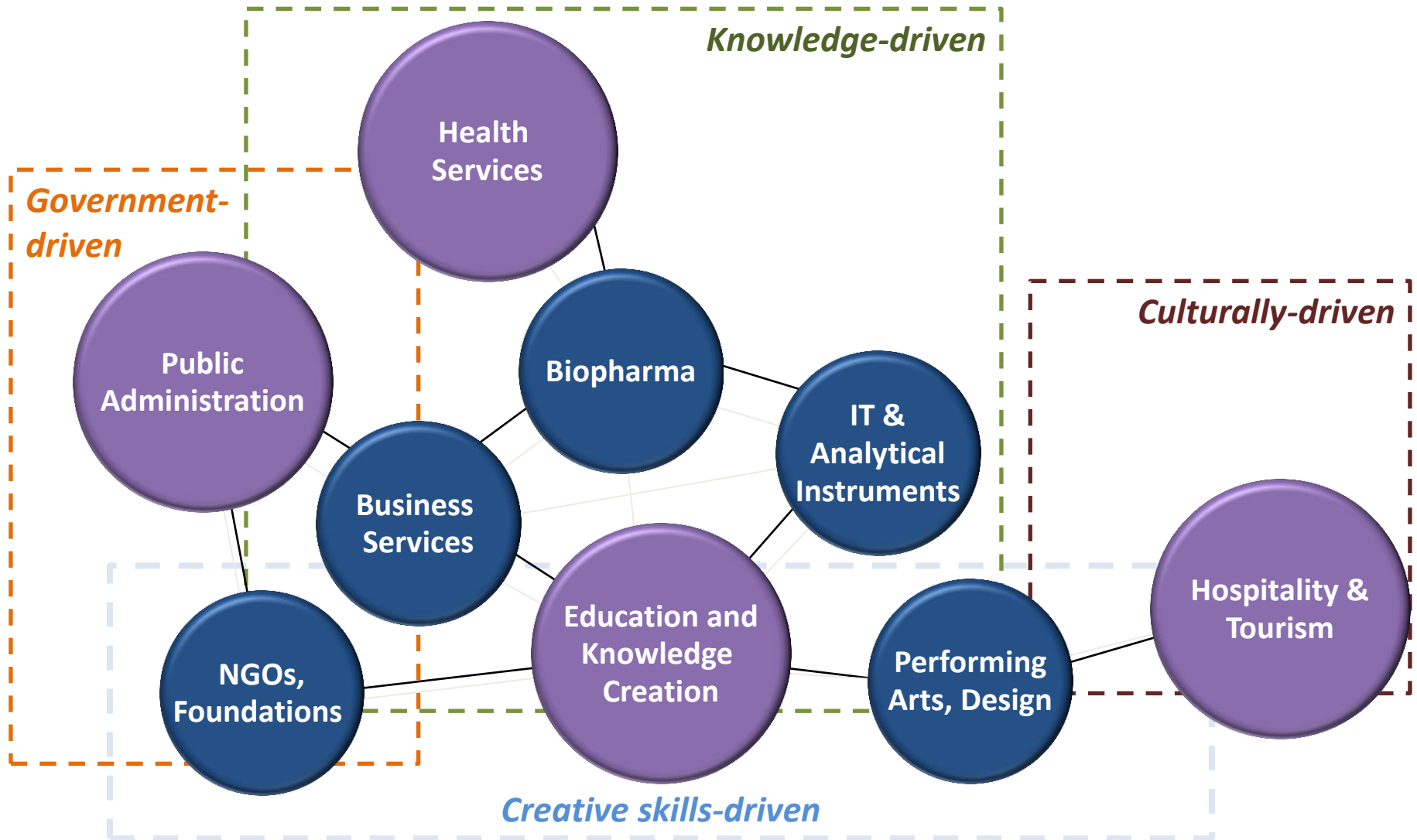
# Traded versus Local Clusters

Employment share of Traded Clusters



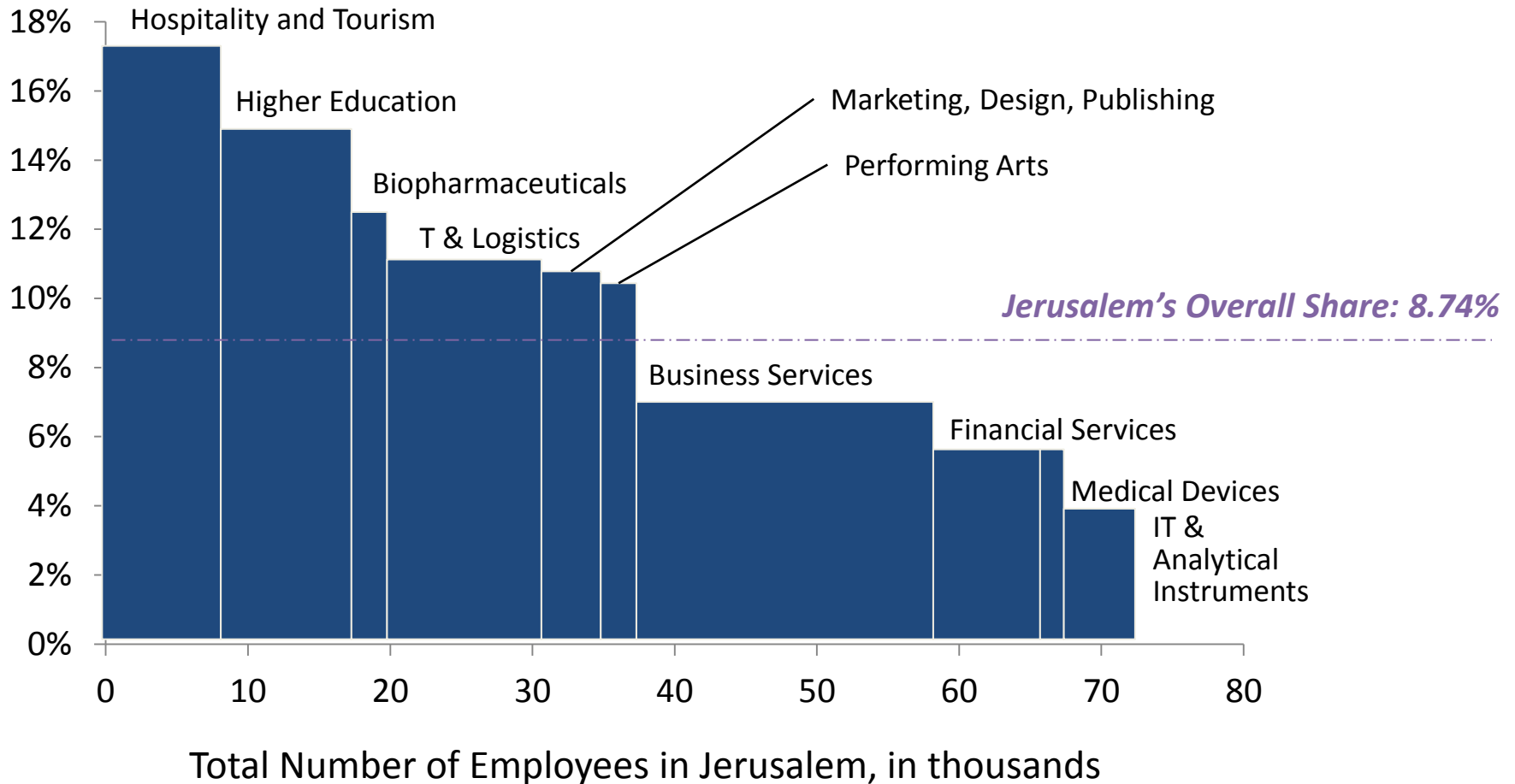
# Jerusalem's Cluster Portfolio

## Core Clusters and Their Linkages



# Key Traded Clusters in the Jerusalem Economy

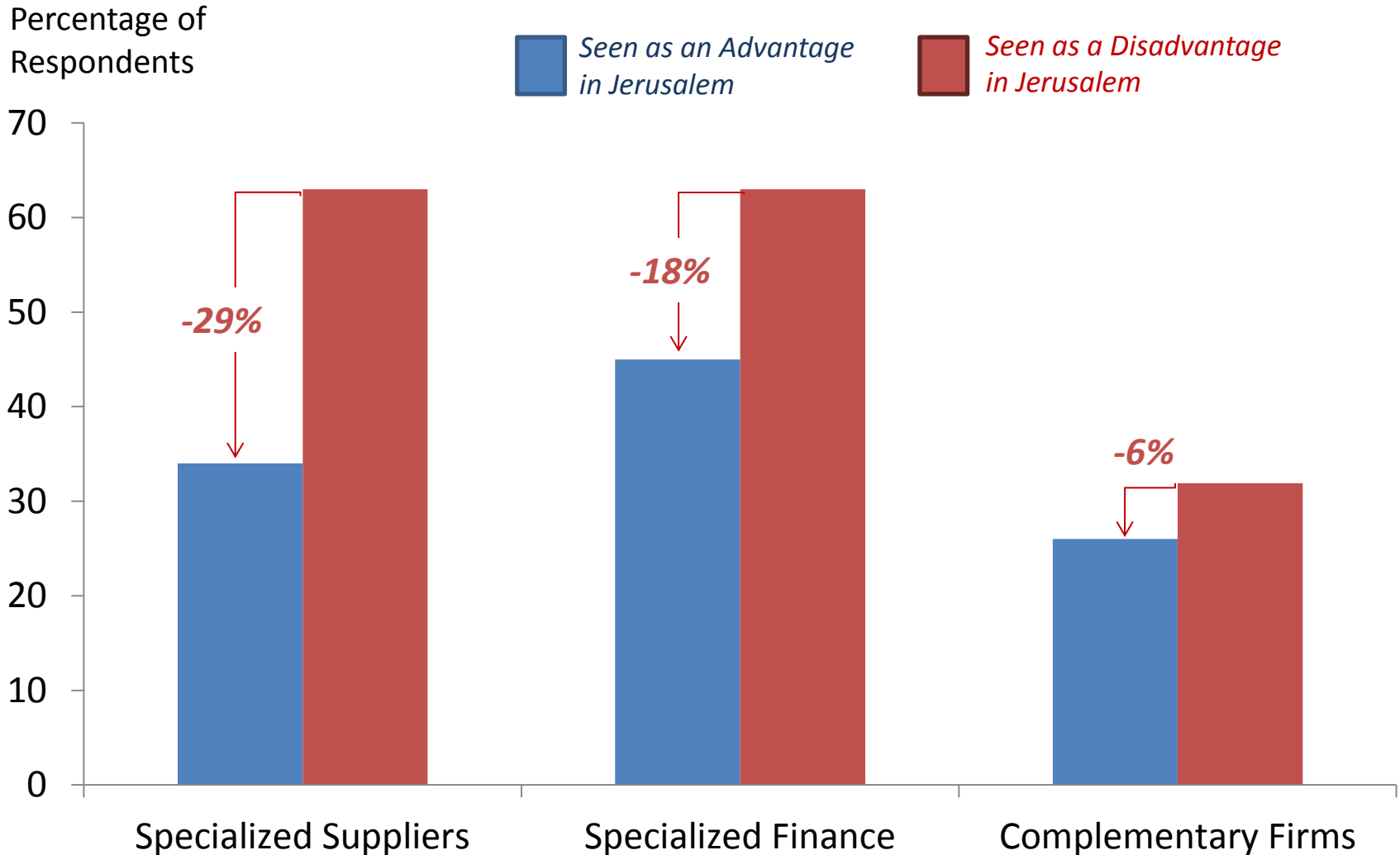
Jerusalem's share in Israeli employment, 2013





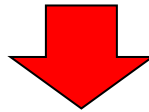
# Depth of Clusters in Jerusalem

## Access to Suppliers, Capital, and Partners

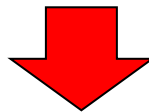


# Jerusalem's Competitive Position

- Business environment quality is overall **solid**, and many improvements have recently been initiated or are in the pipeline
- Jerusalem's economy remains overly focused on local markets, missing out on **global growth opportunities** promising higher returns
- While the city's performance has stabilized, overall prosperity remains **disappointing** and highly **heterogeneous** across social groups



- The City needs to better leverage its business environment qualities into a clear **value proposition as a place to do business**
- The City must aggressively develop its **portfolio of global facing clusters**



- Jerusalem needs a **strategy**

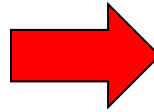
# The Nature of an Economic Strategy

## Policy Improvement

- Implementing **best practices** in each policy area



- There are a **huge number** of policy areas that matter
- No location can (or should try to) make **progress in all areas** simultaneously



## Economic Strategy

- An overall agenda for creating a **more competitive** and **distinctive** position for a country, region, or city, based on its **particular** circumstances

# Developing a City Economic Strategy

## Value Proposition

- What is a **distinctive competitive position** for the city given its location, legacy, existing strengths, and potential strengths?
  - What unique advantages as a business location?
  - For what types of activities and clusters?
  - What roles in the surrounding region, countries, and the global economy?

## Developing Unique Strengths

- What **elements of the business environment** can be unique strengths relative to peers/neighbors?
- What **existing and emerging clusters** can be built upon?

## Achieving and Maintaining Parity with Peers

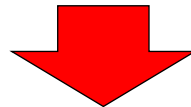
- What **weaknesses** must be addressed to remove key constraints and achieve parity with peer locations?

- What **priorities** and **sequencing** among actions are needed?

# The Jerusalem Growth Agenda

## Strategic Principles

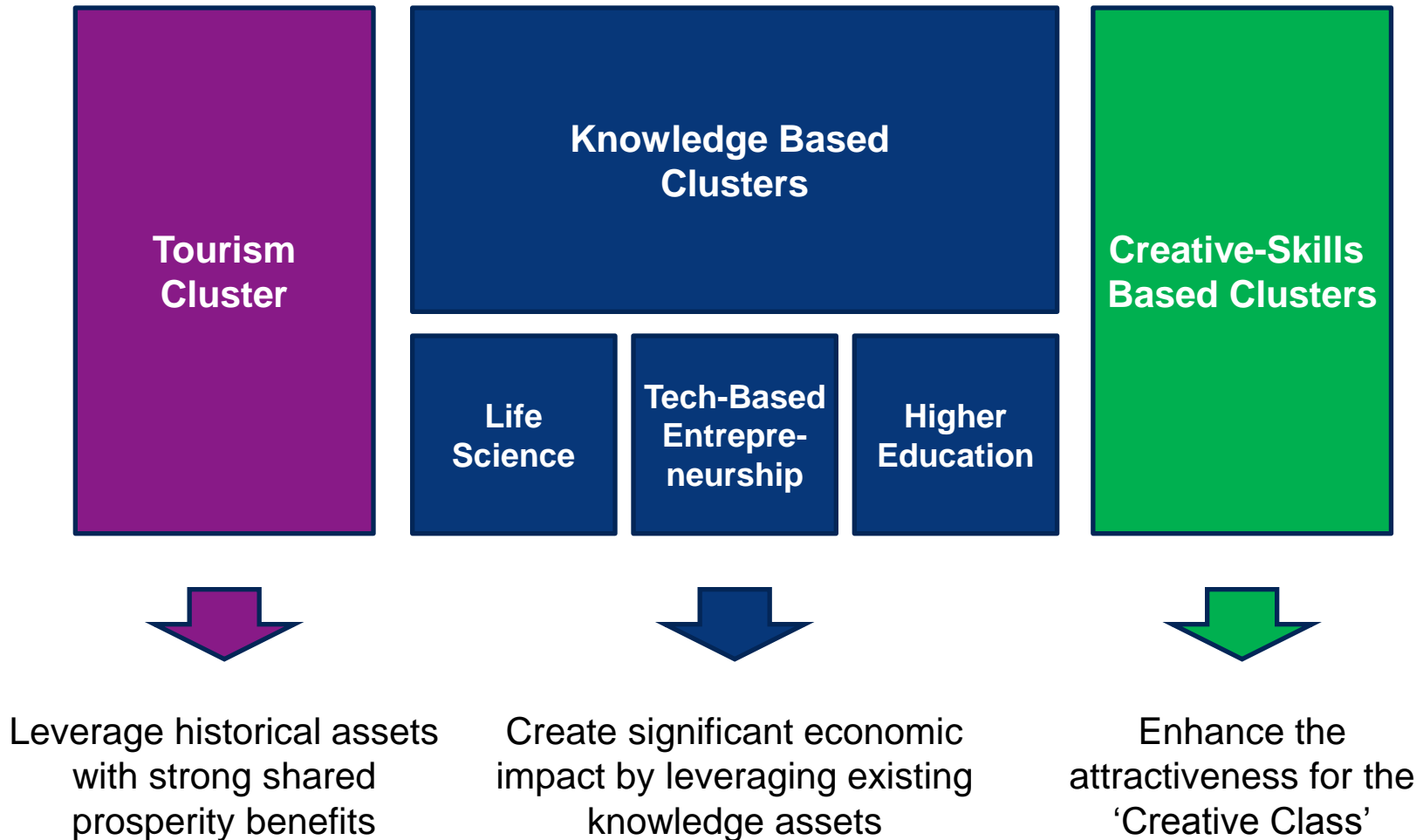
- Build on Jerusalem's considerable assets and its base of **existing and emerging clusters**
- Sharpen Jerusalem's **value proposition** in each area, and prioritize actions accordingly
- Strengthen core **anchor institutions**, and mobilize partnerships and collaborations around them involving the city, businesses, and national/international partners
- Use these partnerships to **enable economic growth** and deliver actions addressing cross-cutting issues the city is facing
- Increase and enable **inclusion**, and the quality of the City as a place to live



- Jerusalem has much to gain from **consistently articulating** what it already offers as a place to do business

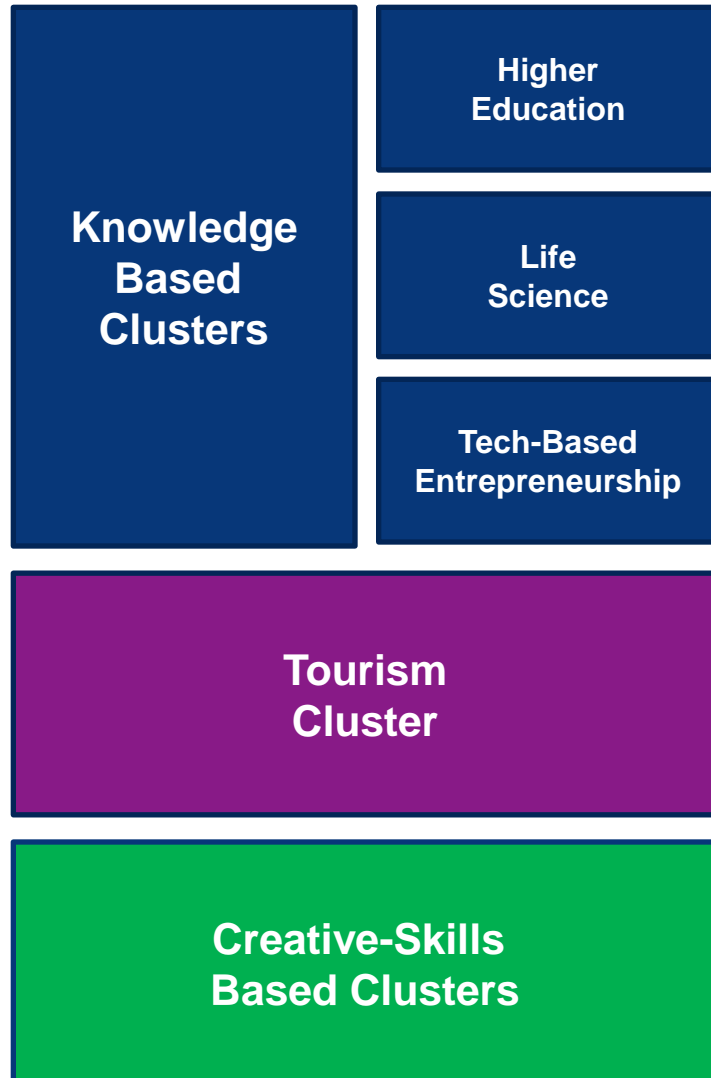
# The Jerusalem Growth Agenda

## A Cluster-Based Approach to Organize Action



# The Jerusalem Growth Agenda

## Core Activities



- "Hill-Tech" technology park Givat-Ram
- Centers for Applied R&D
- Brains2Jobs – Higher education program
- Jerusalem IVF Center
- Centers of Excellence in Life Sciences
- BioJerusalem 2.0
- Start-Up City Community
- Scale Up Jerusalem
- Targeted Investment Attraction
- Innovation City Jerusalem
- Destination Jerusalem - Marketing
- Culture Jerusalem
- Conventions Jerusalem
- Performing Arts hub
- Media & Cinema hub
- Civil Society hub

# A Value Proposition for Jerusalem

## Strengthening Jerusalem's Uniqueness

### *What Jerusalem stands for*

- **Ideas** with wide impact on society; ideas that are “serious” and address real needs
- **People** that are committed to where they are and what they do; have a long-term perspective; and are part of strong networks
- **Connections** that are deep and global



### *How its economy reflects these qualities*

- **Education, research, public service, and arts** as expressions of a cultured society
- **Life Sciences** combining compassion with knowledge
- **Tourism** around history, religion, and culture
- Tech-Driven **Entrepreneurship** fueled by skills, research, and strong networks

- ***How can Jerusalem build on these unique characteristics, and turn them into assets for the economy?***

- ***What type of economic activities can emerge and grow in the city?***



# A Value Proposition for Jerusalem

## Defining the City's Role in the National and Global Economy by Cluster

**Tourism**

**National**

Conferences, Culture, and national Capital

**Global**

Unique religious, historical experience

**Life Sciences**

Most advanced health care center

Focused health care services and research

**Tech/IT-Based**

A strong Start-up platform for Jerusalem skills base

Part of Start-Up Nation

**Academia**

Most advanced educational center

Hub for education and research in specific fields

**Creative Skills-Based**

Leading hub for arts, film, and social sciences

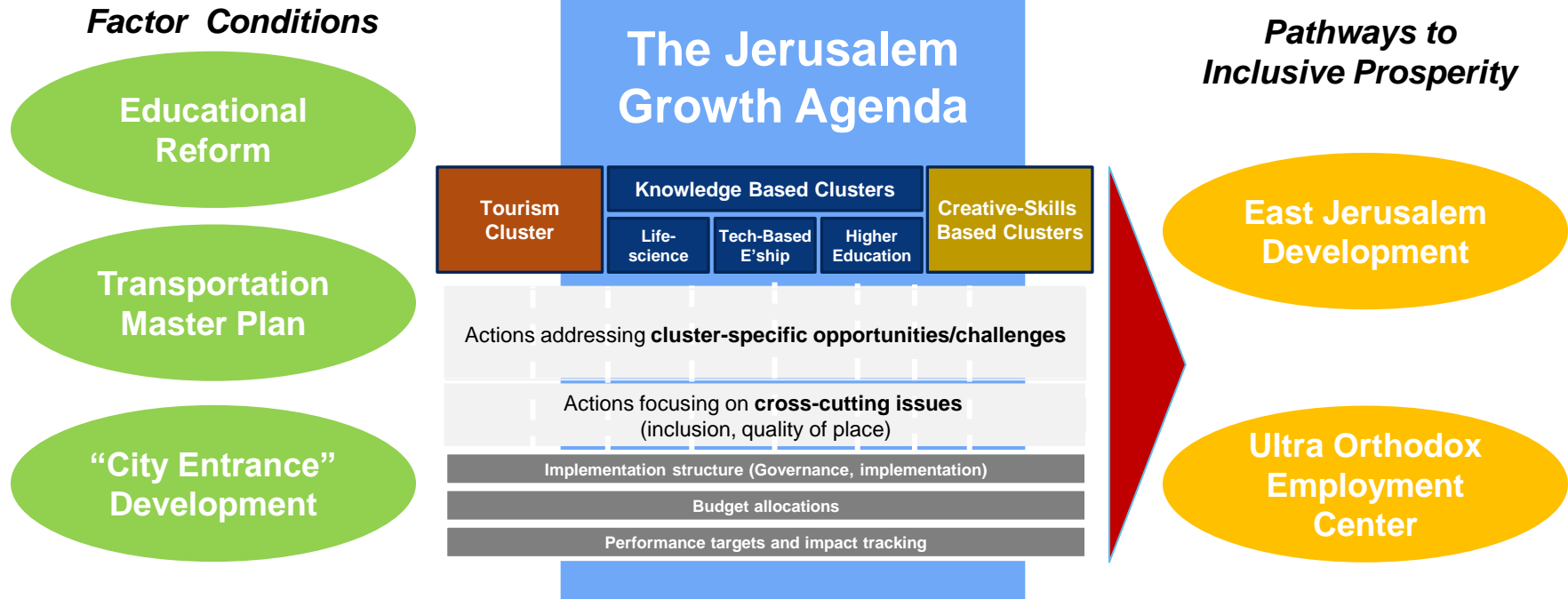
Access to the Jerusalem spirit

# The Jerusalem Growth Agenda In Context

## Relation to Other Main Policy Initiatives

City policies

Private Sector Development



National policies



# Making the Strategy a Reality

## Ingredients for Success

- A **common framework and language**
- A **shared understanding of the current situation**
- A **clear strategy** and **action agenda**
- Engagement of the **key stakeholders**, including business
- **Leadership**